HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Québec CMA

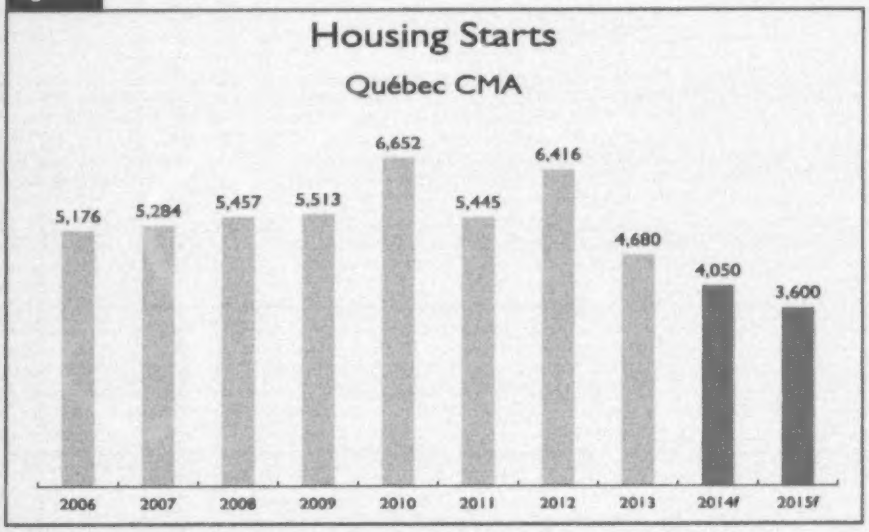
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Activity on the new home market in the Québec census metropolitan area (CMA) will be at its lowest levels in ten years.
- Centris® sales of residential properties will rise slightly in 2014 and 2015.
- Existing home prices will register modest increases.
- The rental market will ease, and the vacancy rate will reach 2.8 per cent in 2015.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 30, 2014.

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New home market: decreases to be felt

Several factors will contribute to the decline in housing starts over the next two years, including the more abundant supply of properties for sale on the existing home market. Another factor is the inventory of new condominiums that is still being absorbed, given the high level of construction registered for the past few years. It can therefore be expected that many buyers potentially interested in new housing will more easily find what they are looking for among the supply of existing and newly built homes.

Still, other factors will support demand on the new home market and limit the anticipated downward trend. In fact, it is expected that employment will pick up somewhat, that net migration will increase and that borrowing conditions will remain relatively the same as they were in 2013.

This year and next, single-detached home starts should be expected to fall, with annual decreases of 12 per cent and 6 per cent, respectively. It should be added that the challenges involved in building dwellings of this type, such as land scarcity and the intensification trend, are still present. In all, 850 single-detached housing starts will be enumerated this year, and the level will go down to 800 new units next year.

Multi-unit housing construction will also be less significant than in 2013 and register declines in both 2014 and 2015. In this segment, the condominium market will remain in an adjustment period, on account of the inventories that have accumulated. Condominium starts will fall by nearly 40 per cent this year, to 900 units, their lowest level since 2008. In 2015, activity should stabilize on this market, with such starts staying at a similar level as in 2014. In fact, the considerable decline in new units recorded in 2013 and the drop expected this year will help supply and demand progressively become balanced again.

Conversely, semi-detached and row homes should remain fairly popular, thanks to their greater affordability and relatively less abundant supply than the other housing types on the existing home market. Semi-detached and row home starts should reach levels similar to that recorded in 2013, with 650 new units annually.

As well, it is anticipated that the number rental dwellings started this year will be comparable to the level recorded last year, at 1,600 units. Several factors support this outlook, including the still significant demand and the fact that this market represents an interesting niche for developers who are slowing their production of condominiums. However, in 2015, rental housing starts should decrease, given the expected completion of a large number of units this year and next year. In fact, the vacancy rate is higher in newer projects, as their rents are generally higher than the rates charged in older buildings. The market should therefore adjust in 2015, so that the newly completed units may be absorbed, and 1,200 new rental dwellings will be started, down by 25 per cent from 2014.

Overall, housing starts will decrease by 13.5 per cent in 2014, compared to 2013, bringing the total to 4,050 units. Next year, the drop will be 11.1 per cent, for a total of 3,600 new units. Activity on the new home market will therefore be at its lowest levels in ten years.

Existing home market: home sales to rise in 2014 and 2015 following a difficult year in 2013

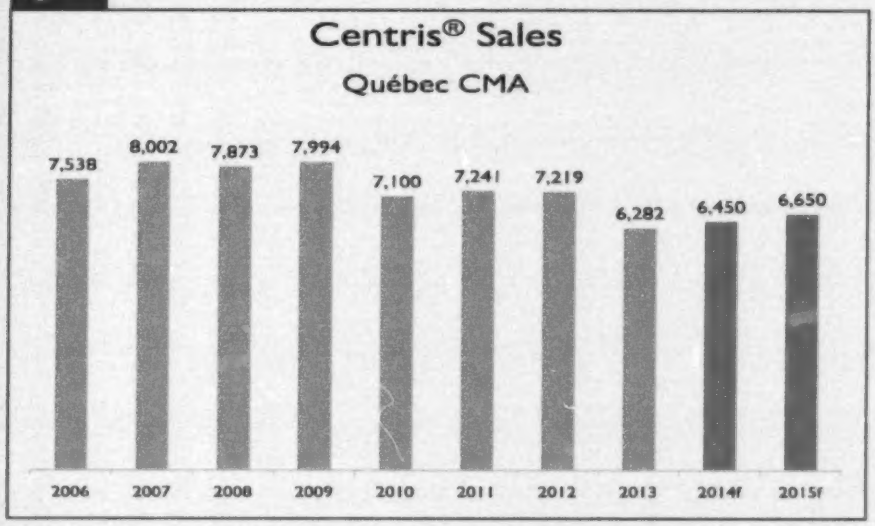
After slowing down in 2013, activity on the existing home market will pick up somewhat. The slight recovery of the job market, combined with the low mortgage rates and a greater supply, will support Centris® sales over the next two years. In all, 6,450 homes will change hands through real estate brokers in 2014 (+2.7 per cent) and 6,650, in 2015 (+3.1 per cent). It should be specified that the anticipated levels, which will be following a marked decrease in 2013, will however remain below the average of the last ten years.

The pace of sales, which has slowed, will cause market conditions to ease and favour buyers in 2014.[1] In fact, the Centris® active listings-to-sales ratio will average at 11 to 1. In 2015, with the increase in sales and the small decrease in supply, market conditions will tighten slightly and be at the limit between a balanced market and a buyer's market.

That being said, the active listings-to-sales ratios will not be the same for all housing types: the single-family home and plex segments will show fairly balanced conditions, while the condominium market should favour buyers—at least over a good portion of the forecast horizon. It should be noted that, currently, with a Centris® active listings-to-sales ratio of 19 to 1,

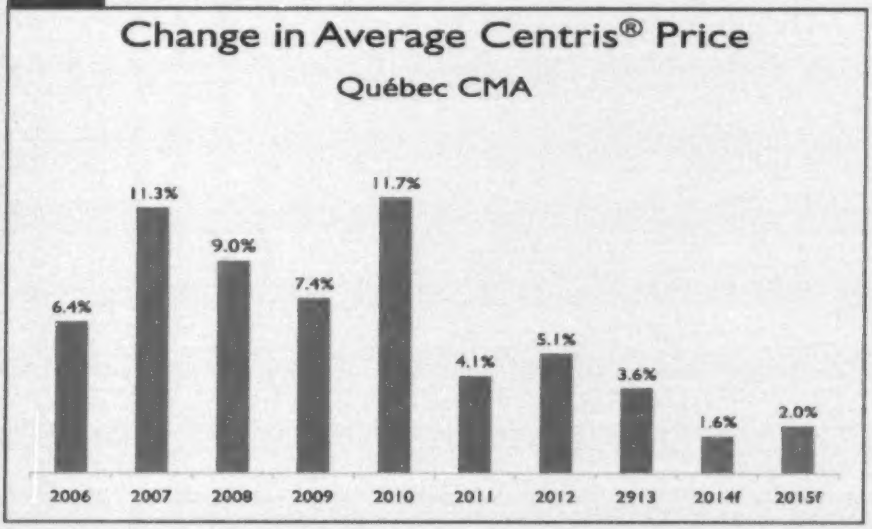
[1] The relationship between buyers and sellers is generally considered to be balanced when the Centris® active listings-to-sales ratio is between 8 and 10 to 1. When this ratio is above 10 to 1, the power relationship between buyers and sellers changes and the edge goes to buyers.

Figure 2



Source: QFREB by the Centris® system
f: CMHC forecasts

Figure 3



Source: QFREB by the Centris® system
f: CMHC forecasts

the condominium market is already clearly favourable to buyers, who therefore have the edge over sellers when negotiating the purchase of a condominium.

In general, the less tight conditions will ease the pressure on prices, and the increases will be more modest.

The average price of existing homes will therefore reach $271,500 in 2014 (+1.6 per cent) and then $277,000 in 2015 (+2.0 per cent).

Lastly, given the market conditions, the average price of condominiums should register a small decrease this year and then stabilize or go back up slightly in 2015. This adjustment period will reflect the significance of the supply in relation to the demand. The anticipated price decrease this year will be essential for the condominium market, but without indicating a situation that could tend to persist. In fact, the slowdown in starts observed since 2013 is already beginning to result in a decrease in the supply of new units available on the market.

Rental market: conditions to ease slightly next year

For several years, the rental market had remained tight in the Québec area, with demand stimulated by the very favourable economic conditions and supply not keeping pace with demand. Since 2010, however, the proportion of vacant apartments in the CMA has risen by 1.3 percentage points, reaching 2.3 per cent in 2013. Over this period, the increase in rental housing starts was greater than the growth in demand, which caused the easing. Another consideration is the development of the supply of rental condominiums, which provide competition for the high-end segment of the rental market.

This year and next, it is anticipated that demand will remain relatively stable or rise slightly. In fact, the moderate employment growth will limit the increase in demand from young people, but the slowdown in the movement to homeownership will maintain part of rental housing demand. As well, with net migration slightly on the rise, demand will grow, as the rental market remains a practical option for people wishing to settle in a new area.

On the supply side, it is anticipated that there will be as many starts this year as in 2013, with 1,600 new units. This addition of dwellings will have an

Figure 4

Source: CMHC
f: CMHC forecasts

impact the following year (that is, in 2015) and should contribute to the easing of the market. In fact, the start of construction on many projects in 2013 and 2014 will result in the accumulation of a relatively significant number of completed units.

The vacancy rate will remain stable at 2.3 per cent this year and then rise to 2.8 per cent next year, on account of the softer market conditions. This increase will be essentially due to the new units started in 2013 and 2014, as demand should not vary significantly.

Given the anticipated market conditions, the average rent will rise moderately in both 2014 and 2015, reaching $770 and $785, respectively.

Economic trends: modest employment gains to be expected

The many private and public investments have allowed the Québec CMA to stand out on the job market front in recent years. In 2014, the level of investments is expected to be comparable to the average of the last two years. In 2015, however, there should be a slowdown in investment spending, with the end of some large infrastructure projects and the decline in residential construction. As well, the current environment suggests the deferral of a few major projects planned for the CMA, as well as a tightening of public spending.

Employment gains will therefore rest on the recovery of the private sector, thanks to the slightly stronger overall economic growth than in 2013. Also, with activity picking up again in the shipbuilding sector, employment will benefit in the short term. After having remained stable in 2013, employment will post increases in both 2014 and 2015. However, these gains will be modest, at 1.0 per cent this year and 1.5 per cent next year. As well, the unemployment rate will remain low, staying just below the 5-per-cent mark this year and next year. The expected economic conditions will support housing demand, although demand will slow down on the new home market.

Given the still attractive job market situation, net migration is expected to rise slightly in 2014 and 2015. Demographic conditions will therefore remain an asset for the area. The number of immigrants coming to settle in the CMA should continue to rise, which will keep rental housing demand strong, as newcomers make up a significant client group for this market segment. And intraprovincial migration should remain steady, as the Québec area stands out on the job market front, compared to other regions of the province.

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	Moderate employment growth will limit the movement to homeownership.
Income	Average weekly earnings increased at a higher rate than inflation in the Québec CMA, which will support homeownership
Population	Net migration in the area has grown in recent years and is expected to remain significant. The favourable demographic trend will help fuel housing demand in the CMA, particularly on the rental market.
Existing home market	The supply of existing properties will grow, which will limit activity on the new home market.
Supply	The new condominium market will remain in an adjustment period, on account of the inventories that have accumulated.

Forecast risks

This outlook is subject to some risks, including the following:

- Employment growth could be more moderate than expected on account of a possible slowdown in investments in the CMA. Should such a situation occur, this would further limit housing demand over the next two years.
- Likewise, if employment were to show signs of slowing down, migration could be less strong than anticipated, which would weaken demand in the rental segment and cause this market to ease further.
- Migration could post a stronger gain if the job prospects in the regions where the migrants in the province come from are more limited than expected. If such is the case, demand for rental housing would strengthen and the easing of the market anticipated for 2015 would not occur.

Forecast Summary Québec CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	1,349	1,258	961	850	-11.6	800	-5.9
Multiples	4,096	5,158	3,719	3,200	-14.0	2,800	-12.5
Starts - Total	5,445	6,416	4,680	4,050	-13.5	3,600	-11.1
Average Price ($):							
Single-Detached	313,905	326,583	354,041	370,000	4.5	375,000	1.4
Median Price ($):							
Single-Detached	283,579	292,174	300,000	305,000	1.7	305,000	0.0
New Housing Price Index (% chg.)	1.4	2.9	1.1	1.0	-	1.0	-
Resale Market[1]							
Centris® Sales	7,241	7,219	6,275	6,450	2.8	6,650	3.1
Centris® New Listings	12,423	12,689	12,696	13,200	4.0	13,500	0.0
Centris® Active Listings	4,082	4,694	5,618	6,000	6.8	5,800	-3.3
Centris® Average Price ($)	245,470	257,942	267,254	271,500	1.6	277,000	2.0
Rental Market[2]							
October Vacancy Rate (%)	1.6	2.0	2.3	2.3	-	2.8	-
Two-bedroom Average Rent (October) ($)	718	741	757	770	-	785	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	419,700	422,000	421,900	426,100	1.0	432,500	1.5
Employment Growth (%)	2.3	0.5	0.0	1.0	-	1.5	-
Unemployment rate (%)	5.3	5.1	4.7	4.8	-	4.8	-
Net Migration	5,189	5,260	5,071	5,200	2.5	5,325	2.4

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2013-2014)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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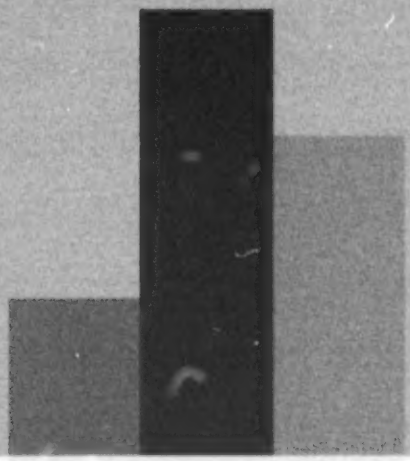

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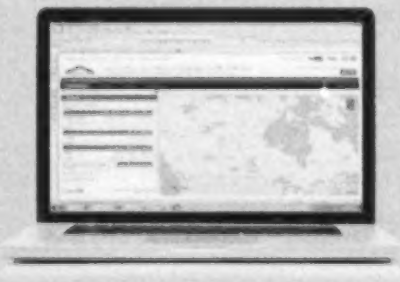

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